

41. The FCC recognizes in the Bell Atlantic/NYNEX decision that evaluation of the competitive effects of mergers requires balancing the benefits and potential harms to consumers.¹⁰⁷ In this case, the evaluation is easy. The transaction creates an actual competitor in the provision of local exchange services in 30 new metropolitan areas without significantly reducing the number of firms that are potential competitors. The benefits to consumers of an increase in actual competition must weigh heavily in this balance.

VI. CONCLUSIONS

42. The successful implementation of SBC/Ameritech's "national/local" strategy will result in significant consumer benefits by creating a large and significant new competitor in the provision of local exchange services in 30 metropolitan areas. The transaction will create an actual competitor providing nationwide services to business customers as well as services to small business and residential customers in 30 metropolitan areas, and in SBC's and Ameritech's home territories.

43. My review indicates that neither SBC nor Ameritech would have pursued the national/local plan in the absence of this or a similar transaction. Even in the unlikely event that either firm were to pursue the national/local strategy in the absence of this or a similar transaction, deployment of new facilities and services would be significantly slower than would be expected with the transaction. The transaction reduces the number of areas that must be entered to gain a national/local

107. FCC, Memorandum Opinion and Order in Bell Atlantic/NYNEX, ¶157.

footprint and increases the number of large businesses with headquarters in SBC/Ameritech's home region that can be "followed."

44. Moreover, the Ameritech merger and out-of-region plan together increase the combined firms' ability to provide broad geographic coverage relative to that which would be expected if two firms were to follow individual entry strategies. This enables facilities and services to be deployed more effectively and quickly than otherwise would be possible.

45. While the transaction creates an actual competitor in 30 metropolitan areas, there will not be a significant reduction in the number of potential competitors in the provision of CLEC services. There are now a variety of firms using a variety of strategies attempting to enter into the provision of local exchange services. No opportunities for these alternative suppliers are foreclosed by the proposed transaction.

46. In sum, implementation of the national/local strategy creates a significant competitor in the provision of local services and leaves unchanged many other new entrants and strategies. Public policy should encourage entry under these circumstances and the transaction should be approved.

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Ph.D., MASSACHUSETTS INSTITUTE OF TECHNOLOGY, Cambridge, Massachusetts:
Economics, 1975.

M.S., MASSACHUSETTS INSTITUTE OF TECHNOLOGY, Cambridge, Massachusetts:
Operations Research, 1974.

A.B., HARVARD UNIVERSITY (Summa cum laude): Applied Math and Economics, 1972.

EMPLOYMENT

LEXECON INC., Chicago, Illinois: President.

UNIVERSITY OF CHICAGO, Graduate School of Business (1984 - present): Professor of
Business Economics.

UNIVERSITY OF CHICAGO, Law School (1980 - 1984): Professor of Economics.

UNIVERSITY OF CHICAGO, Department of Economics: Assistant Professor (1976 - 1979):
Associate Professor (1979 - 1980).

MASSACHUSETTS INSTITUTE OF TECHNOLOGY, Cambridge, Massachusetts, Department of
Economics (1975 - 1976): Instructor in Economics.

OTHER PROFESSIONAL EXPERIENCE

HARVARD UNIVERSITY, Public Policy Summer Course in Economics (1977): Professor.

BELL TELEPHONE LABORATORIES (Summers 1976, 1977).

JOINT CENTER FOR URBAN STUDIES OF M.I.T. AND HARVARD UNIVERSITY, Cambridge,
Massachusetts (1974 - 1975).

CHARLES RIVER ASSOCIATES, Cambridge, Massachusetts (Summers 1971, 1972): Research
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FIELDS OF SPECIALIZATION

Theoretical and Applied Microeconomics
Industrial Organization
Econometrics
Urban Economics

ACADEMIC HONORS AND FELLOWSHIPS

M.I.T., National Scholar Award, 1968
Edwards Whitacker Award, 1969
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John Harvard Award, 1970
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National Science Foundation Fellowship, 1972 - 1975
Recipient of Post-doctoral Grant from the Lincoln Foundation, 1975
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Recipient of the 1977 P.W.S. Andrews Memorial Prize Essay, best essay in the field of Industrial Organization by a scholar under the age of thirty
Ph.D. Thesis chosen to appear in the Garland Series of Outstanding Dissertations in Economics

PROFESSIONAL AFFILIATIONS AND ACTIVITIES

Co-editor, Journal of Law and Economics, 1980 - present
Associate Editor, Regional Science and Urban Economics, 1987 - 1997
Associate Editor, The International Journal of Industrial Organization, 1991 - 1995
Member, American Economics Association, Econometrics Society
National Bureau of Economic Research, Research Associate
Member, Advisory Committee to the Bureau of the Census, 1987 - 1990
Editorial Board, Intellectual Property Fraud Reporter, 1990 - 1995
Consultant on Merger Guidelines to the U.S. Department of Justice, 1991 - 1992
Accreditation Committee, Graduate School of Business, Stanford University, 1995
Visiting Committee, Massachusetts Institute of Technology, Department of Economics, 1995 - present
Resident Scholar, Board of Governors of the Federal Reserve System, Summer, 1995
Member, Advisory Board, Economics Research Network, 1996 - present
Member, Steering Committee, Social Science Research Council, Program in Applied Economics, 1997 - Present
Participant in meetings with Committee of the Federal Reserve on Payment Systems, June 5, 1997
Participant in round table discussions on "The Role of Classical Market Power in Joint Venture Analysis," before the Federal Trade Commission, November 19, 1997 and March 17, 1998.

BOOKS

"Market Behavior Under Uncertainty," Ph.D. Thesis, Massachusetts Institute of Technology (September 1975); Garland Publishing (1984).

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EXPERT TESTIMONIAL EXPERIENCE

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Testimony of Dennis W. Carlton, William M. Landes and Sam Peltzman in Re: Joint Application of Pan American World Airways, Inc. and United Airlines, Inc., Pacific Division Transfer Case: Proceedings before the U.S. Department of Transportation, Docket No. 43065, August 7, 1985.

Deposition of Dennis W. Carlton in Re: General Motors "THM 200" Transmission Litigation: Proceedings before the U.S. District Court, Northern District of Illinois, Eastern Division, No. 79 C 1249, 80 C 2151 and 85 C 4805, July 2, 1986.

Affidavit of Dennis W. Carlton in Re: Norwest Bank Fire Case: Proceedings before the U.S. District Court, Fourth Judicial District, State of Minnesota, Court File No. 83-08122, August 28, 1986.

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Deposition of Dennis W. Carlton in Re: Research Institute for Medicine and Chemistry, Inc. v. Wisconsin Alumni Research Foundation: In the U.S. District Court, Western District of Wisconsin, Case No. 85-C-1060-D, October 20 & 21, 1986.

Affidavit and Deposition of Dennis W. Carlton in Re: United States Football League, et al. v. National Football League, et al.: In the U.S. District Court, Southern District of New York, 84 Civ. 7484 (PKL), November 24, 1986 (Affidavit), February 26, 1986 and December 4, 1986 (Deposition).

Verified Statements of Dennis W. Carlton in Re: Coal Trading Corporation, et al. v. The Baltimore and Ohio Railroad Co., et al.: Before the Interstate Commerce Commission, ICC Docket No. 38301S, December 16, 1986 and September 8, 1987.

Testimony of Dennis W. Carlton in Re: The Application of Pacific Bell, a Corporation, for Authority to Increase Certain Intrastate Rates and Charges Applicable to Telephone Services Furnished within the State of California, California Public Utilities Commission, Application No. 85-01-034, December 19, 1986, and January 22 & 28, 1987.

Deposition of Dennis W. Carlton in Re: John H. Torphy v. Touche Ross & Co., et al.: In the Circuit Court Dane County, State of Wisconsin, Case No. 82-CV-4033, August 25, 1987.

Deposition of Dennis W. Carlton in Re: Martin Exploration Management Company, et al. v. Panhandle Eastern Corporation, et al.: In the U.S. District Court for the District of Colorado, Civil Action No. 86-Z-804, May 5, 6 & 18, 1988.

Deposition of Dennis W. Carlton in Re: The Dow Chemical Company v. Halliburton Company and The Dow Chemical Company v. Mississippi Power & Light Company: In the U.S. District Court for the Northern District of Mississippi Greenville Division, No. GC-78-31-GD-D and No. GC-78-32-GD-D, June 16, 1988.

Statements and Testimony of Dennis W. Carlton in Re: Trailer Train Company et al., Approval of Pooling of Car Service With Respect to Flat Cars: Before the Interstate Commerce Commission, Finance Docket No. 27590. (Sub-No. 1), July 7 & 14, 1988 (Statements) and July 25 & 26, 1988 (Testimony).

Testimony of Dennis W. Carlton in Re: Pontarelli Limousine, Inc. v. City of Chicago, Finance Docket No. 83-C-6716, September 25 & 26, 1989.

Deposition of Dennis W. Carlton in Re: Great Northern Nekoosa Corporation v. Georgia-Pacific Corporation: Before the United States District Court District of Connecticut, Civ. Action No. B-89-607-WWE, December 28, 1989 and January 15, 1990.

Testimony of Dennis W. Carlton in Re: The Matter of the Physicians and Surgeons Medical Malpractice Insurance Rates of St. Paul Fire & Marine Insurance Company: Before the State of Minnesota Office of Administrative Hearings for the Commissioner of Commerce, O.A.H. Docket No. 0-1004-3412-2, January 1990.

Deposition of Dennis W. Carlton in Re: Dale A. Ervin, et al. v. Amoco Oil Company, et al.: In the District Court, City and County of Denver, State of Colorado, No. 88-CV-11994, September 5, 1990.

Reply Affidavit of Dennis W. Carlton and George J. Stigler in Re: United States of American v. Western Electric Company Inc. and American Telephone and Telegraph Company: In the United States District Court for the District of Columbia, Civil Action No. 82-0192, January 10, 1991.

Testimony of Dennis W. Carlton in Re: Westreco, Inc. v. Commissioner of Internal Revenue: In the United States Tax Court, Washington, D.C. 20217, Docket No. 24078-88, January 29, 1991.

Deposition, Testimony, and Rebuttal Testimony of Dennis W. Carlton in Re: In the Matter of Marathon Oil Company and Phillips Petroleum Company: Before the Department of Revenue, State of Alaska, Case No. 89314, April 23 & 24, 1991 (Deposition), March 28, 1991, June 19, 1991 (Testimony), July 22, 1991 (Rebuttal Testimony) and October 3 & 4, 1991 (Oral).

Deposition of Dennis W. Carlton in Re: Martin Exploration Management Company, et al. v. Panhandle Eastern Pipeline Corporation, et al.: In the U.S. District Court for the District of Colorado, Civil Action No. 91-N-110, February 5, 1992.

Deposition, Affidavit and Testimony of Dennis W. Carlton in Re: United States of America v. Brown University, et al.: In the U.S. District Court For the Eastern District of Pennsylvania, Civil Action No. 91-CV-3274, February 18 & 19, 1992 (Deposition), April 28, 1992 (Affidavit), and July 8 & 9, 1992 (Testimony).

Deposition of Dennis W. Carlton in Re: United States of America, People of The State of California, et al. v. J. B. Stringfellow, Jr., et al.: In the United States District Court Central District of California, No. CIV 83-2501 JMI, March 10 & 11, 1992.

Affidavit of Dennis W. Carlton in Re: SCFC ILC, Inc. d/b/a MountainWest Financial v. Visa U.S.A., Inc.: In the U.S. District Court for the District of Utah, Central Division, Civil No. 2:91-cv-047B, June 25, 1992.

Deposition and Testimony of Dennis W. Carlton in Re: Adcom, Incorporated, Cutrone Communications, Incorporated, Great Southern Communications Incorporated, Nola Communications Incorporated and Conrad Communications, Incorporated v. Nokia Corporation, Nokia-Mobira Oy, Nokia-Mobira, Incorporated, Nokia, Incorporated, Nokia Data Communications and Cue Paging Corporation: In the United States District Court for the Eastern District of Louisiana, Civil Action Number 90-4088, November 3 & 4, 1992 (Deposition), and February 9 & 10, 1993 (Testimony).

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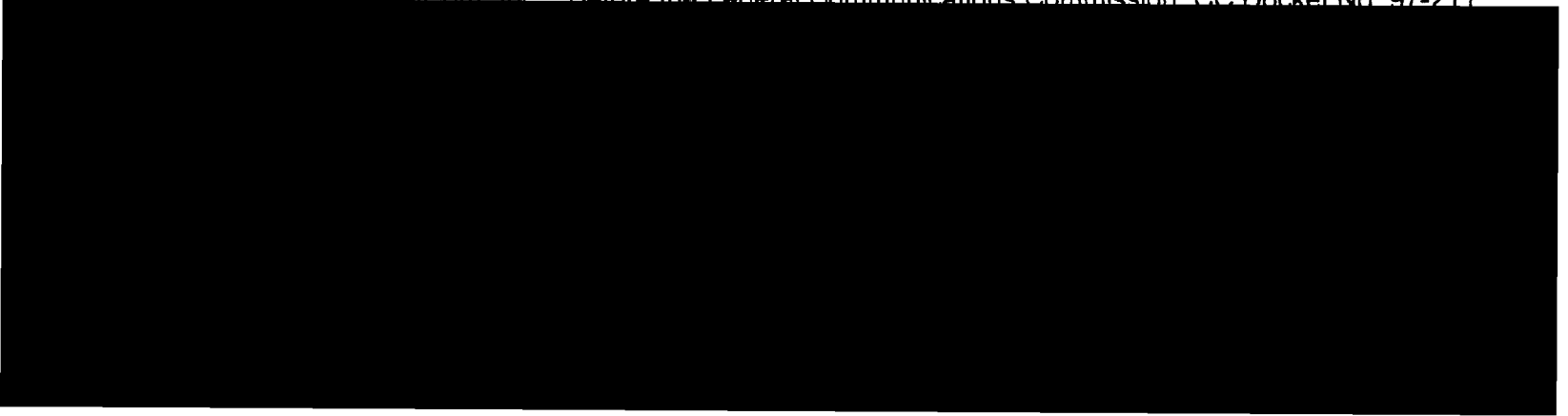
Declaration of Dennis W. Carlton in Re: Applications of WorldCom, Inc. and MCI Communications Corporation for Transfer of Control of MCI Communications Corporation to WorldCom, Inc.: Before the Federal Communications Commission, CC Docket No. 97-211, January 25, 1998 (with H. Sider)

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Second Declaration of Dennis W. Carlton in Re: Applications of WorldCom, Inc. and MCI Communications Corporation for Transfer of Control of MCI Communications Corporation to WorldCom, Inc.: Before the Federal Communications Commission, CC Docket No. 97-211



Pursuant to 47 C.F.R. §§ 1.743(c), 1.913(c), 5.54(c), the preceding document is a copy of the original signed affidavit, which was filed as an attachment to Exhibit 2 to the Form 490 applying for the Commission's consent to transfer control of Part 22 licenses held by Detroit SMSA Limited Partnership from Ameritech Corporation to SBC Communications Inc. That Form 490 was filed concurrently with this application.

AFFIDAVIT OF RICHARD SCHMALENSEE AND WILLIAM TAYLOR

COMMONWEALTH OF MASSACHUSETTS)
)
) SS:
)
COUNTY OF MIDDLESEX)

Richard Schmalensee and William Taylor, being duly sworn, depose and say:

Richard Schmalensee is the Gordon Y. Billard Professor of Economics and Management at the Massachusetts Institute of Technology (MIT), Interim Dean of the MIT Sloan School of Management, and Director of MIT's Center for Energy and Environmental Policy Research. He also is a Special Consultant to National Economic Research Associates, Inc. and has served as a Director of the Long Island Lighting Company, a Member of the EPA's Environmental Economics Advisory Committee, and Chairman of the EPA's Clean Air Act Compliance Analysis Council. He served as a Member of President Bush's Council of Economic Advisers with primary responsibility for domestic and regulatory policy, including environmental and telecommunications policy and for U.S. assistance to Central and Eastern Europe. He served for several years as a consultant to the Bureau of Economics of the Federal Trade Commission.

Dr. Schmalensee has done extensive research on aspects of industrial organization and antitrust policy, particularly nonprice competition and conditions of entry. He has also studied the telecommunications industry, the electric power sector and general issues of regulation and regulatory reform. He has testified in both federal and state courts, before several Congressional committees, and before the Federal Trade Commission, and he has served as a consultant on regulatory and competitive issues to numerous organizations in the United States and abroad.

He received his S.B. and Ph.D. degrees in economics from MIT and taught for some years at the University of California, San Diego. At MIT, he teaches graduate courses in

industrial organization, its applications to management decisions, government regulation and government/business relations. He has published over 60 articles in professional journals, including *The American Economic Review*, *The RAND Journal of Economics*, *The Harvard Law Review*, *The Journal of Econometrics*, *Public Utilities Fortnightly*, *Econometrica*, *The Journal of Law and Economics*, *The Journal of Industrial Economics*, *The Economic Journal*, *The Antitrust Law Journal*, *The International Journal of Industrial Organization*, *The Quarterly Journal of Economics*, and *The Journal of Economic Perspectives*.

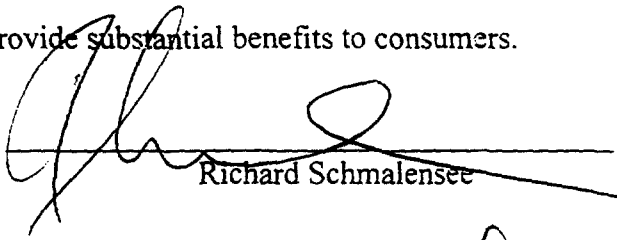
He is the author of *The Economics of Advertising* and *The Control of Natural Monopolies* and co-author of *Markets for Power*. He is also co-editor of the *Handbook of Industrial Organization* and founding editor of the MIT Press Regulation of Economic Activity monograph series. He has served on the editorial boards of *The American Economic Review*, *Zeitschrift fur Nationalokonomie*, *The International Journal of Industrial Organization*, *The Journal of Economic Perspectives*, *Recherches Economiques de Louvain*, and *The Journal of Industrial Economics*. He has served on the Executive Committee of the American Economic Association and is a Fellow of the Econometric Society and the American Academy of Arts and Sciences.

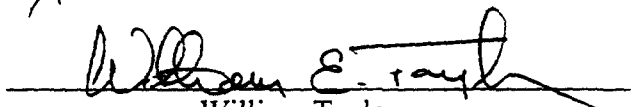
William Taylor is a Senior Vice President of National Economic Research Associates, Inc. (NERA), head of its telecommunications economics practice and head of its Cambridge office. He received a B.A. degree in economics, magna cum laude, from Harvard College in 1968, a master's degree in statistics from the University of California at Berkeley in 1970, and a Ph.D. in Economics from Berkeley in 1974, specializing in industrial organization and econometrics. He has taught and published research in the areas of microeconomics, theoretical and applied econometrics, and telecommunications policy at academic institutions (including the economics departments of Cornell University, the Catholic University of Louvain in Belgium, and the Massachusetts Institute of Technology) and at research organizations in the telecommunications industry (including Bell Laboratories and Bell Communications Research, Inc.). He has participated in telecommunications regulatory proceedings before state public service commissions, the Federal Communications Commission, the Canadian Radio-Television and Telecommunications Commission and federal and state legislative bodies on

numerous topics in telecommunications economics including public interest assessments of mergers of major local, long distance and cable suppliers.


His articles have appeared in numerous telecommunications industry publications as well as *Econometrica*, the *American Economic Review*, the *International Economic Review*, the *Journal of Econometrics*, *Econometric Reviews*, the *Antitrust Law Journal*, *The Review of Industrial Organization*, and *The Encyclopedia of Statistical Sciences*. He has served as a referee for these journals (and others) and the National Science Foundation and has served as an Associate Editor of the *Journal of Econometrics*.

We have been asked by SBC Communications, Inc. ("SBC") and Ameritech Corporation ("Ameritech") to assess the likely effect of the proposed merger of SBC and Ameritech on consumers and competition in the telecommunications markets served by them. In the attached report, using conventional economic models and tools, we conclude that the merger can have no adverse effect on current competition in the telecommunications markets served by SBC and Ameritech and is unlikely to have any adverse effect on competition in those markets in the future. On the contrary, we conclude that by reducing costs and by facilitating entry by the combined firm into out-of-region local exchange markets—and reciprocally inducing entry of other ILECs into the local exchange markets of SBC and Ameritech—the merger is likely to provide substantial benefits to consumers.


Richard Schmalensee


William Taylor

Subscribed and sworn to before me this 21st day of July, 1998.


Kristiana Olsen
Notary Public

**COMMENTS CONCERNING THE PROPOSED
SBC-AMERITECH MERGER**

**Report of Richard Schmalensee and William Taylor
National Economic Research Associates, Inc.
July 21, 1998**

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REPORT OF RICHARD SCHMALENSEE
AND
WILLIAM TAYLOR

I. THE ECONOMIC FRAMEWORK FOR MERGER ANALYSIS

1. The Federal Communications Commission ("FCC" or "Commission") articulated its standards for merger review in its decisions in the SBC-Pacific Telesis and Bell Atlantic-NYNEX cases.¹ There, the Commission determined that to approve a proposed merger, it must find the transaction to be in the public interest, where the public interest standard encompasses the "broad aims" of the Communications Act, including, among other things, supporting a procompetitive, deregulatory national telecommunications policy framework. The Commission therefore considers the effect of the merger on competition, using, in part, the *Merger Guidelines* framework employed routinely by the U.S. Department of Justice and Federal Trade Commission to assess the welfare effects of proposed mergers and, in part, a framework specific to telecommunications markets including effects of regulation, high current concentration, rapid technological change and anticipated changes in market structure stemming from the implementation of the procompetitive requirements of the Telecommunications Act of 1996.²

¹ In re *Applications of Pacific Telesis Group and SBC Communications, Inc.*, Memorandum Opinion and Order, Report No. LB-96-32, released January 31, 1997. In re *Applications of NYNEX Corp. And Bell Atlantic Corp Consent to Transfer Control of NYNEX and its Subsidiaries*, Memorandum Opinion and Order, ("Bell Atlantic-NYNEX Order"), CC Docket No. 97-286, released August 14, 1997.

² Bell Atlantic-NYNEX Order, ¶¶2-7.

2. Mitigating possible competitive harms from a merger are merger-specific efficiency gains that improve market performance, resulting in lower prices, improved service quality and the offering of new or enhanced services.³ Likely sources of such gains include:

- economies of scale and scope which may result because of the increased size of the merged firm, through synergies in operations and management, or from expansion in output since markets available to the merged firm are larger than those served by the firms separately;
- more competitive prices, higher quality service and increases in output which may result from increased competitiveness in certain markets; and
- new products and services which may be developed in greater number and/or at greater speed because the return on product development may be higher in the merged firm due to improved incentives or scale economies.

3. The competitive analysis begins by identifying the relevant product and geographic markets in which the merging parties *currently* participate. Within those markets, it then measures the effect of the merger on market structure—the number and size distribution of firms competing in a market—as an indicator of the likely effect of the merger on competition in those markets. Economists consider both the level of and the change in market concentration. If the merger significantly increases concentration in a concentrated market, then the analyst must examine other factors affecting competition, including the ease of entry of new firms into the market, the pricing history of firms currently in the market, and the ease with which consumers can substitute away from the service in question in response to an increase in price. As described in Section III below, after divestiture of certain overlapping cellular properties, there will be no meaningful current, actual competition between operating entities of SBC and Ameritech in any product or geographic market, so these considerations do not apply.

4. A separate competitive analysis is applied to potential, rather than actual, competition, assessing the degree to which the merger is likely to eliminate an “actual potential” competitor whose likely entry in the future (whether perceived or not by current competitors) would reduce

³ *Ibid.*, ¶158